



Investment Wānanga

Māori Economic Development Taskforce

August 2010



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Māori Economic Development Taskforce

HE MEA TINO ANGITU

Real World Infrastructure Opportunities in Aotearoa

Chris Money and Chris Taylor

August 2010



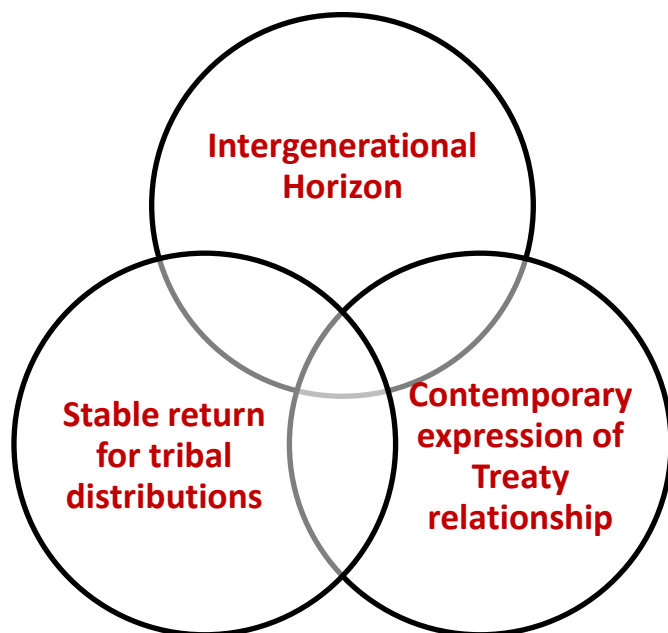
Ngā pātai

- Is infrastructure the holy grail?
- Which type of infrastructure is most attractive to iwi?
- Where are the infrastructure opportunities?

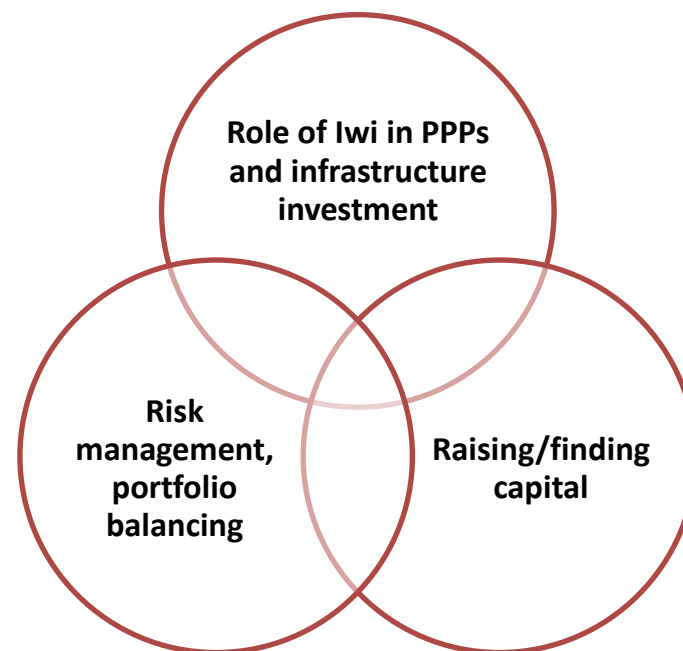


Infrastructure and Iwi

Leadership has emphasised strong strategic fit in terms of:



But, there are unknowns and work to do:



And, we probably can't do it alone:

ehara taku toa i te toa takitahi, he toa takitini kē

What is Infrastructure?

Physical assets often referred to as “capital assets”. Infrastructure falls into two distinct categories: networks (also known as physical or economic infrastructure) and buildings (also known as social infrastructure)

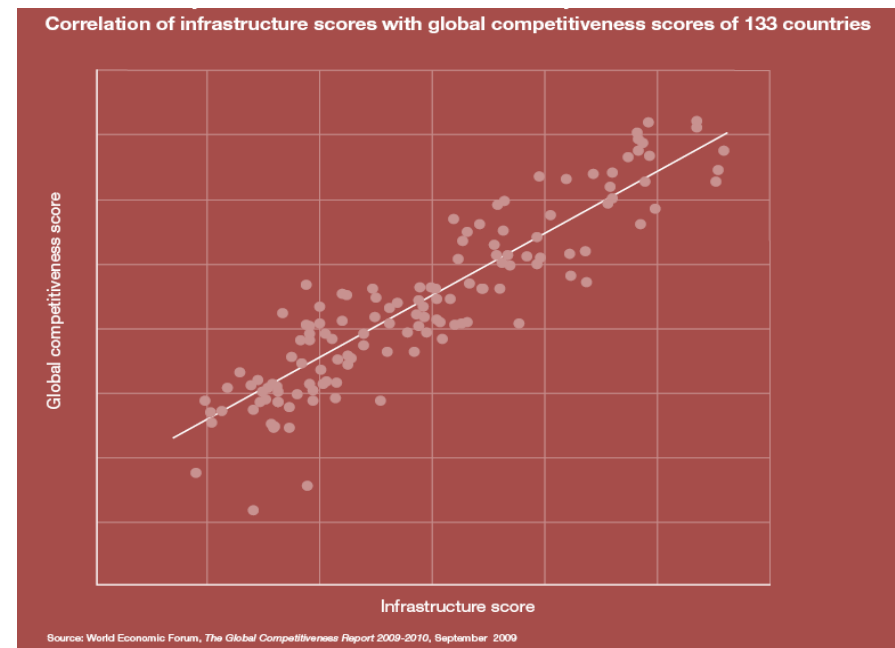
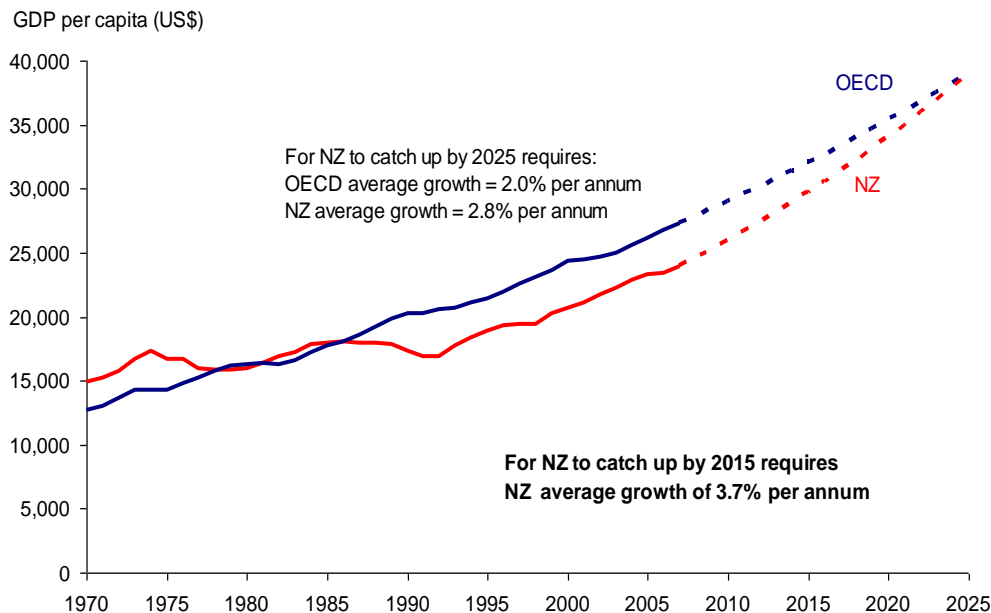


Networks include roads, ports, airports, telecoms, broadcasting, rail, electricity transmission and water distribution



Buildings, often referred to as “social infrastructure”, include schools, houses, hospitals, prisons and recreational and tourism facilities

Why is infrastructure important?



1 % increase in public capital stock could result in a one-off, sustained increase in GDP of 0.2% for a developed economy

NZ patterns in infrastructure

Need

- Aging infrastructure
- Period of under investment in infrastructure
- Changing demographic needs/pressures- i.e. New social infrastructure required in areas with recent and growing population density
- Societal changes e.g. Growth in ICT infrastructure required
- Changing philosophy on the role of government

Approach

Early

- Government developed, delivered and operated (funded through borrowing)

Now

- Government procurement of base infrastructure through private sector/ PPPs (e.g. design and construct)

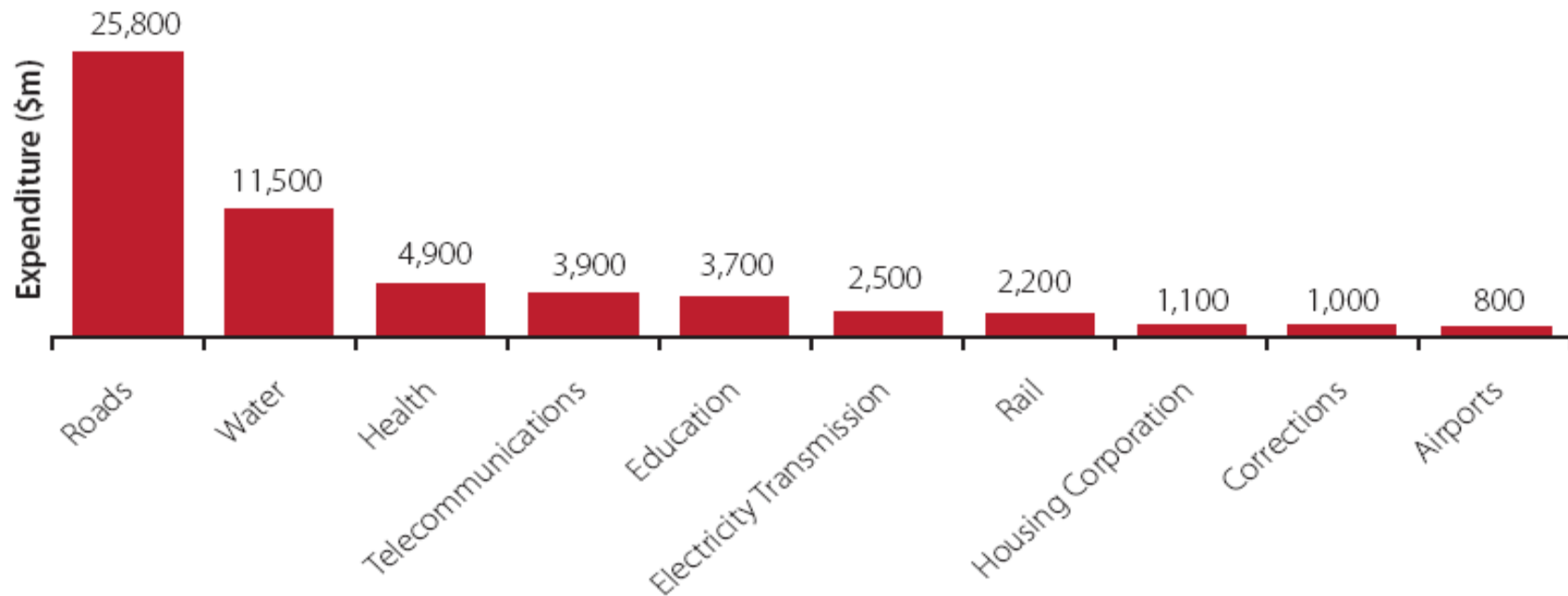
Emerging

- Design, build and operate – whole of service, whole of life


- Sharing of risks might increase projects being “on time, on budget”
- More innovative financing may reduce costs over the lifetime of an asset
- Increased use of Alliance contracting and PPPs

Why change approach?

Real world opportunities- total planned infrastructure spend

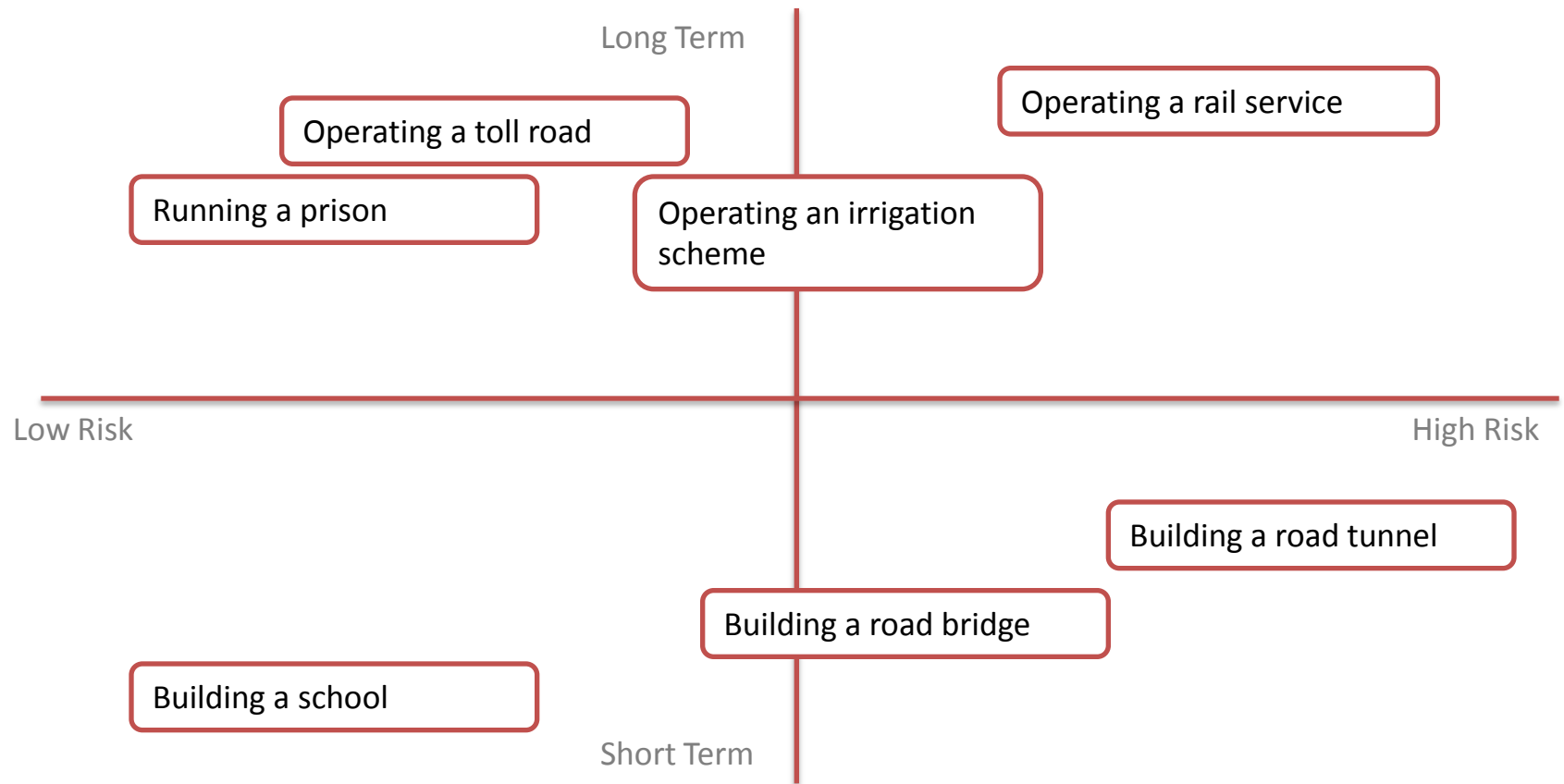


Asset class mix and match



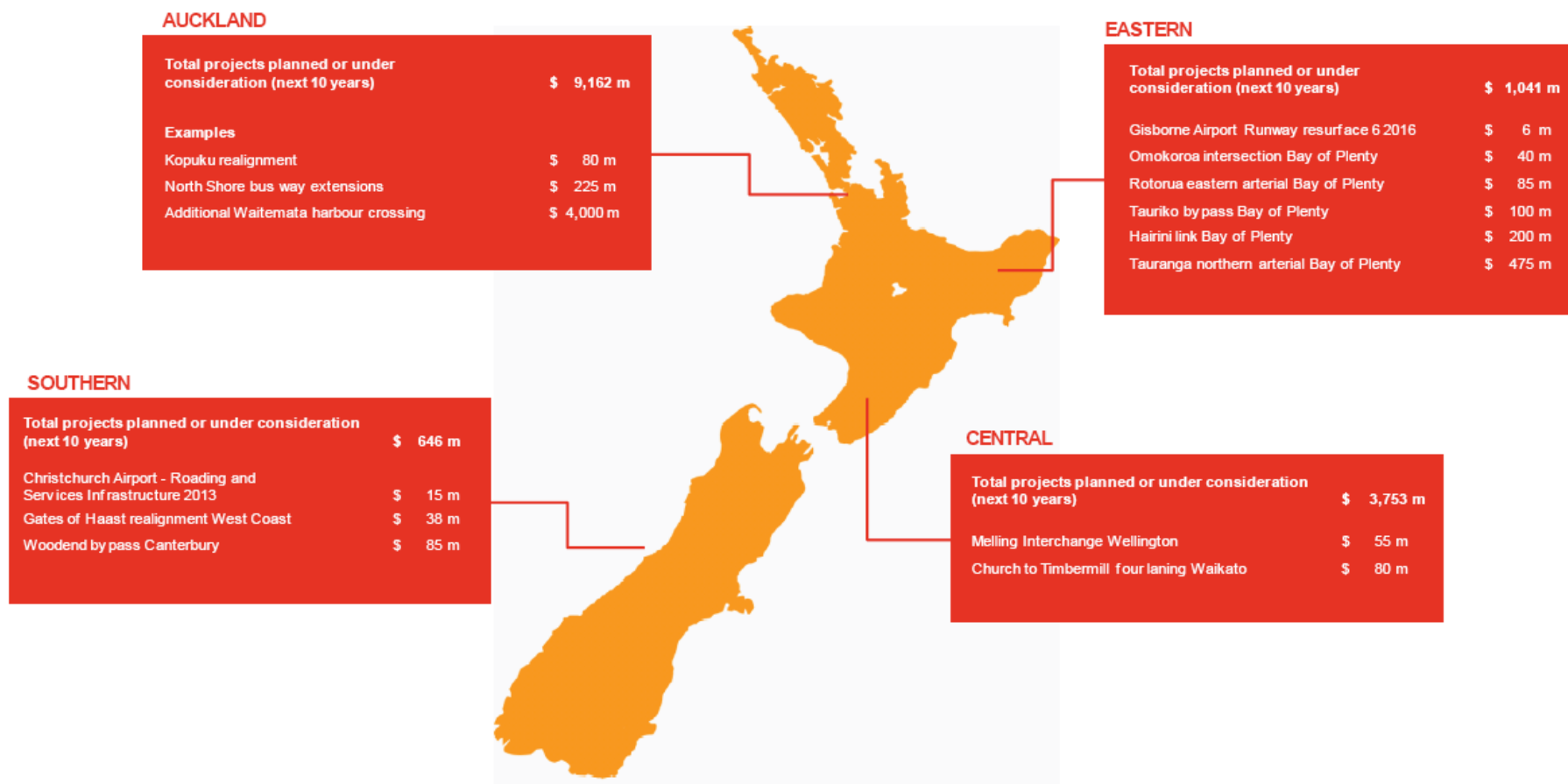
	Asset Size	Post-Tax Return	Asset Beta	Equity Funding	Debt Funding	Post Tax Return to Equity	Pre-Tax Return to Debt
Energy	\$200m	8-10%	0.5-0.6	\$150m	\$50m	10-12%	9-11%
Commercial Construction	\$10.0m	11-13%	0.8-0.9	\$5.6m	\$4.4m	14-16%	10-12%
Property Ownership	\$20m	6-8%	0.3-0.4	\$12m	\$8m	7-9%	7-9%
Private healthcare facilities	\$13m	8-10%	0.5-0.6	\$5m	\$8m	12-13%	9-11%
Fibre network	\$50m	8-10%	0.6-0.7	\$28m	\$22m	11-13	8-9%

Some examples





Transport





Health

AUCKLAND

Total projects planned or under consideration (next 10 years) \$ 1,490 m

Examples

Waitemata North Shore Car Park	\$ 26 m
Greenlane Clinical Centre new all-age rehab centre	\$ 48 m
Greenlane Clinical Centre new elective surgery facility	\$ 24 m
Counties Manukau centre for health services innovation	\$ 50 m

SOUTHERN

Total projects planned or under consideration (next 10 years) \$ 1,315 m

Ashburton Hospital	\$ 20 m
Canterbury Burwood Hospital / Rehabilitation Facility	\$ 70 m
Buller Hospital Aged Care (if not done privately)	\$ 20 m

NORTHERN

Total projects planned or under consideration (next 10 years) \$ 146 m

Northland Whangarei Stage One	\$ 25 m
Whangarei Redevelopment – Stage 2	\$ 41 m
Whangarei Redevelopment – Stage 4	\$ 80 m

EASTERN

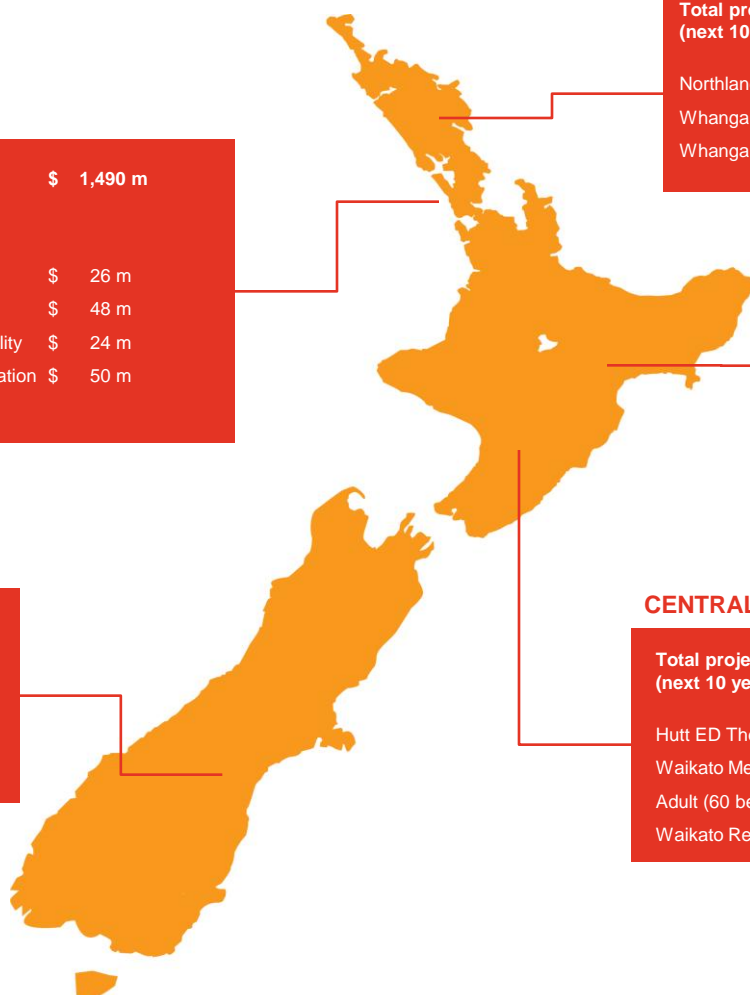
Total projects planned or under consideration (next 10 years) \$ 184 m

Tauranga Masterplan – Theatres	\$ 29 m
Lakes Rotorua and Taupo Hospitals	\$ 90 m

CENTRAL

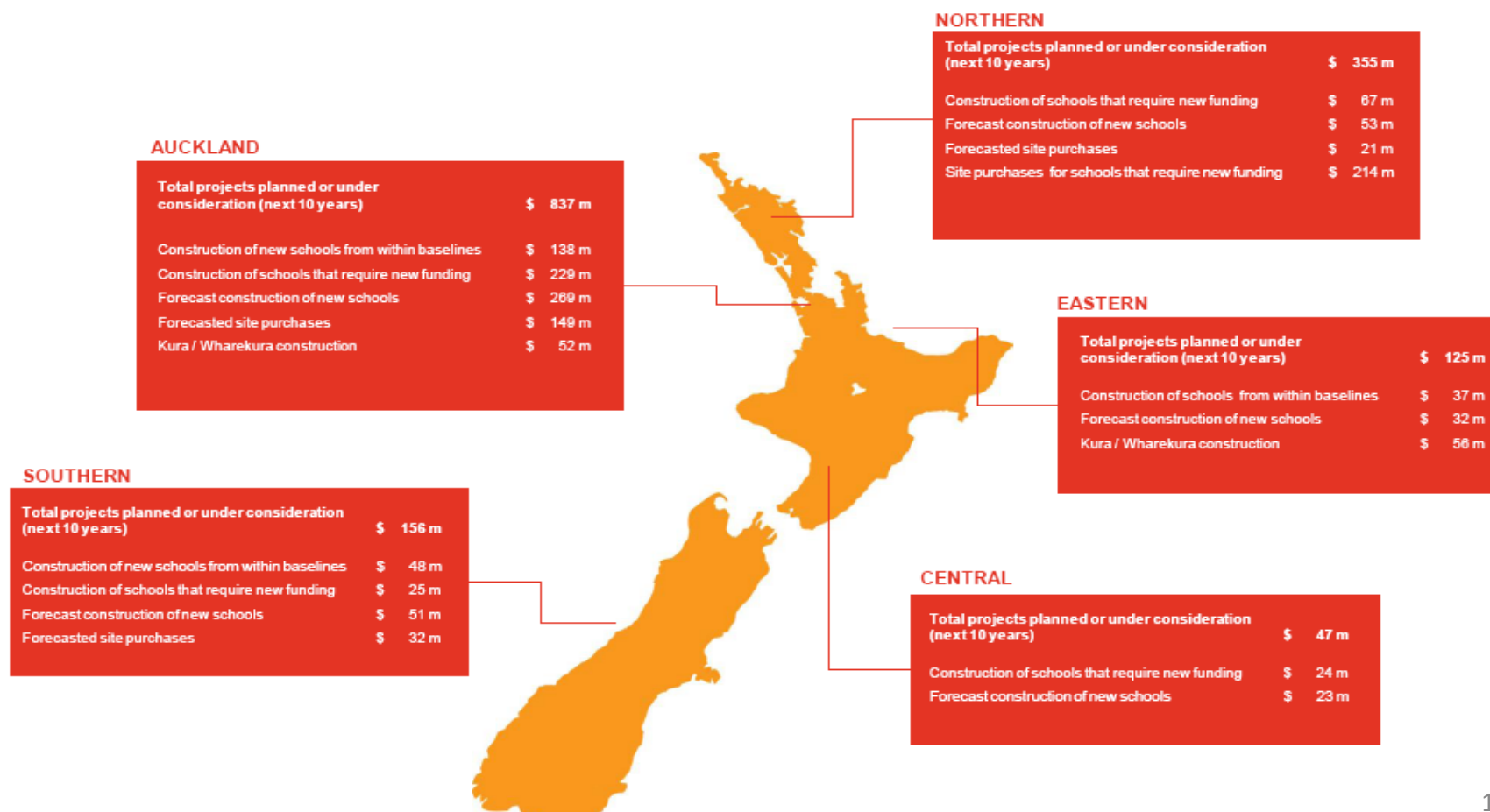
Total projects planned or under consideration (next 10 years) \$ 668 m

Hutt ED Theatres	\$ 82 m
Waikato Mental Health	
Adult (60 beds Inpatient facility)	\$ 30 m
Waikato Rehabilitation Hub	\$ 23 m





Education



Kōrerotia



- How attractive is infrastructure?
- Which asset class(es)?
- Investment within and/or outside of your rohe





IWI

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KIA WHAKAPUTA

Iwi Investment in Infrastructure

Eric Lucas / Mark Paterson

August 2010



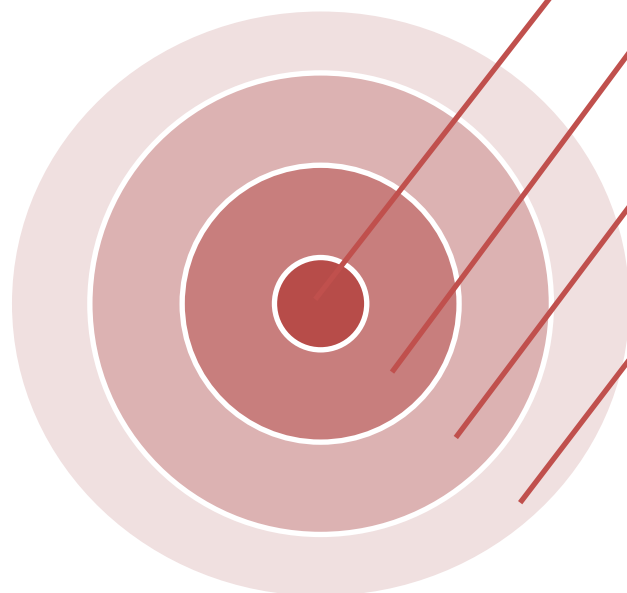


Ngā patai

- **What is a PPP; and**
- **How to pull a PPP together;**
 - **When do we do what?**
 - **Who do we need to know?**

PPPs are not the only answer

This is a Crown
procurement puzzle



Infrastructure Bonds— government raises money on private markets to finance activity. No default risk, so low returns

Design and Construct— government contracts with private sector company to manage some or all aspects of the design and building of an asset. Fixed price agreed on case by case basis with contractor bearing construction risks

Alliance— government contracts with private sector company or consortium to manage some or all aspects of the design and building of the asset. Flexible contracting and pricing to encourage provider performance.

Public Private Partnership— Government contracts with private sector company or consortium to finance and manage some or all aspects of the design, building and servicing the asset over its service life. Private sector parties responsible for managing whole of life costs.

The essence of a PPP

- Procurement method
- Relationships –
 - Agree to agree
 - Whole of asset life duration
- Build + Operate
 - Traditional approach- private sector 'builds something'
 - Increasingly, about operating the service and adding value to the service

Sharing of risk and reward;
the person taking risk will
always retain significant
rights

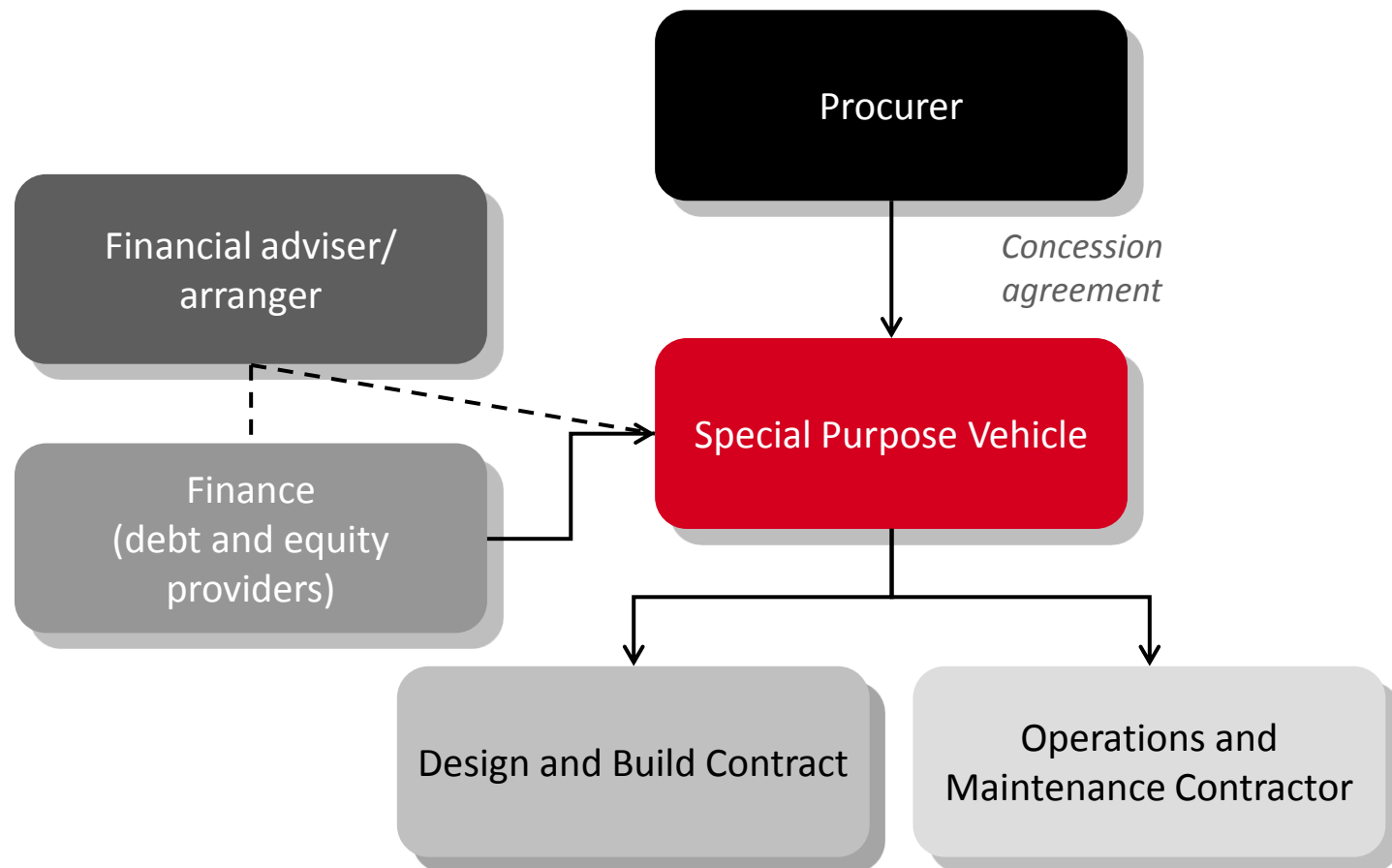
Wide range of skills is
required

Vital to understand parties'
motivations

PPP typically financially
motivated;
Iwi may have non-financial
objectives

Collaboration is vital

Typical PPP structure





Key participants and their objectives

Procurer

- Seeking to have project completed on time, on budget
- Minimise cost and residual risk
- Typically this role is held by the Crown

Special Purpose Vehicle

- Seeks to profit by assuming risk in exchange for tolling or availability payments
- Potentially may be subject to KPI's
- Generally held by a specifically created entity

Debt and equity providers

- Seeking to earn return on funds commensurate with level of risk undertaken
- Generally held by private sector financiers and banks, depending on risk tolerance



Key participants and their objectives

Design and Build Contractor

- Earns contract margin and potentially upside if project completed early
- May have some equity involvement
- Suited to experienced construction operator

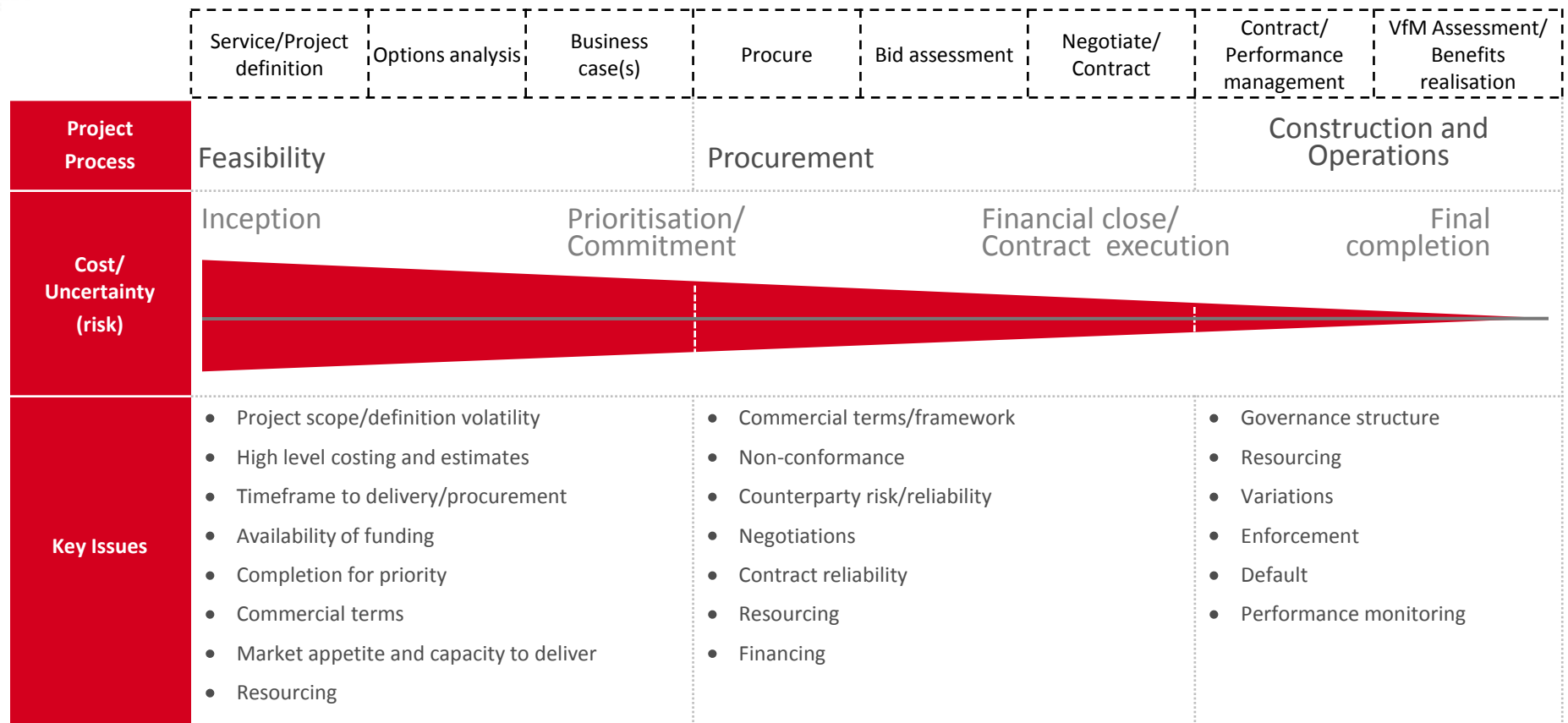
Operations and Maintenance Contractor

- Typically earns fixed return under contract
- Potentially may be subject to KPI's
- Held by a service provider

Financial adviser/arranger

- Typically earns advisory/success fees
- Strong interest in ensuring consortia is successful bidder and completes project successfully
- Suited to investment banks/corporate financiers

Project life cycle



Pre-RFP stage

Procurer seeking to identify:

- Do we need to do this?
- If we do, is a PPP the best way to do it?

Project/service definition

Options analysis

Business case and feasibility:

- Market appetite/capacity to deliver
- Likely motivations of interested parties
- High level costing/estimates
- Availability of funding

Other considerations

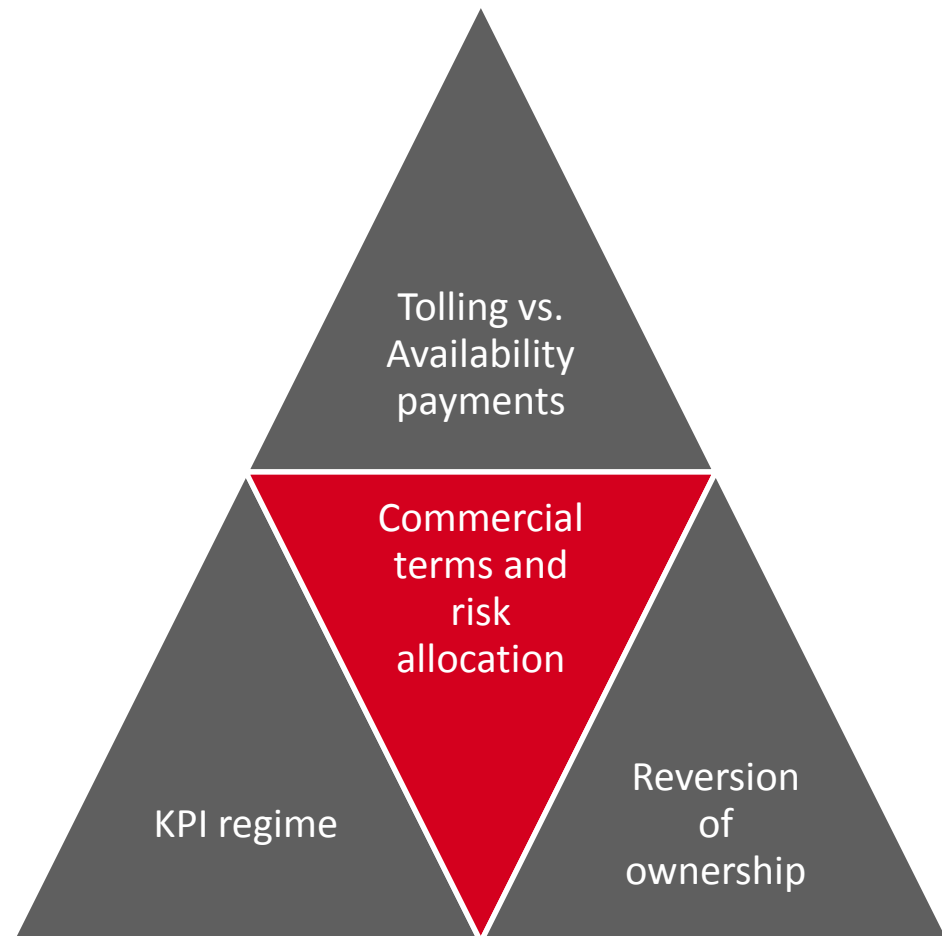
- Resourcing
- Political considerations and priority for completion

Initial market testing

Pre-RFP stage

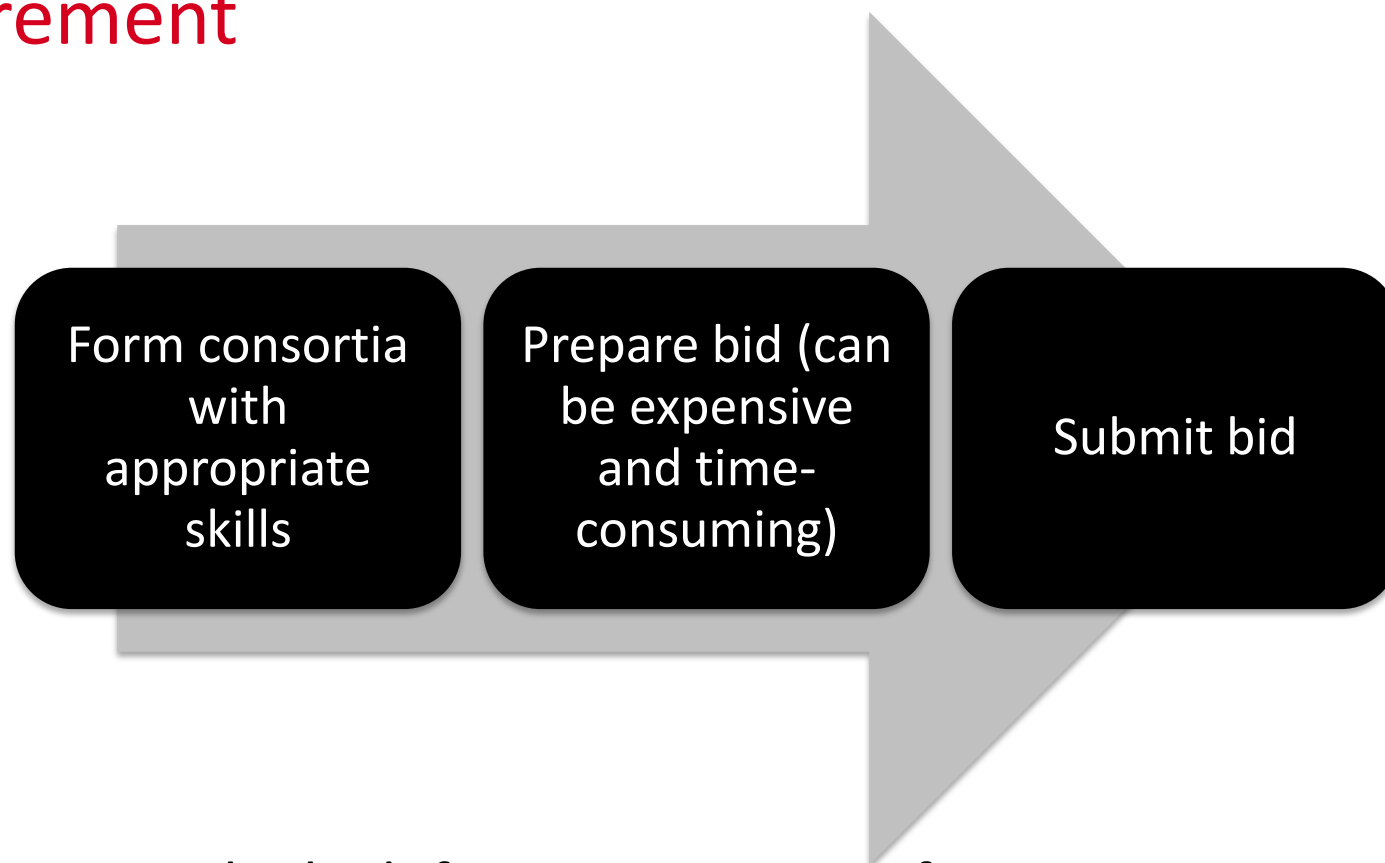
Key issues:

- How do we allocate the risk?*
- How should we reward those who are taking on risk?*



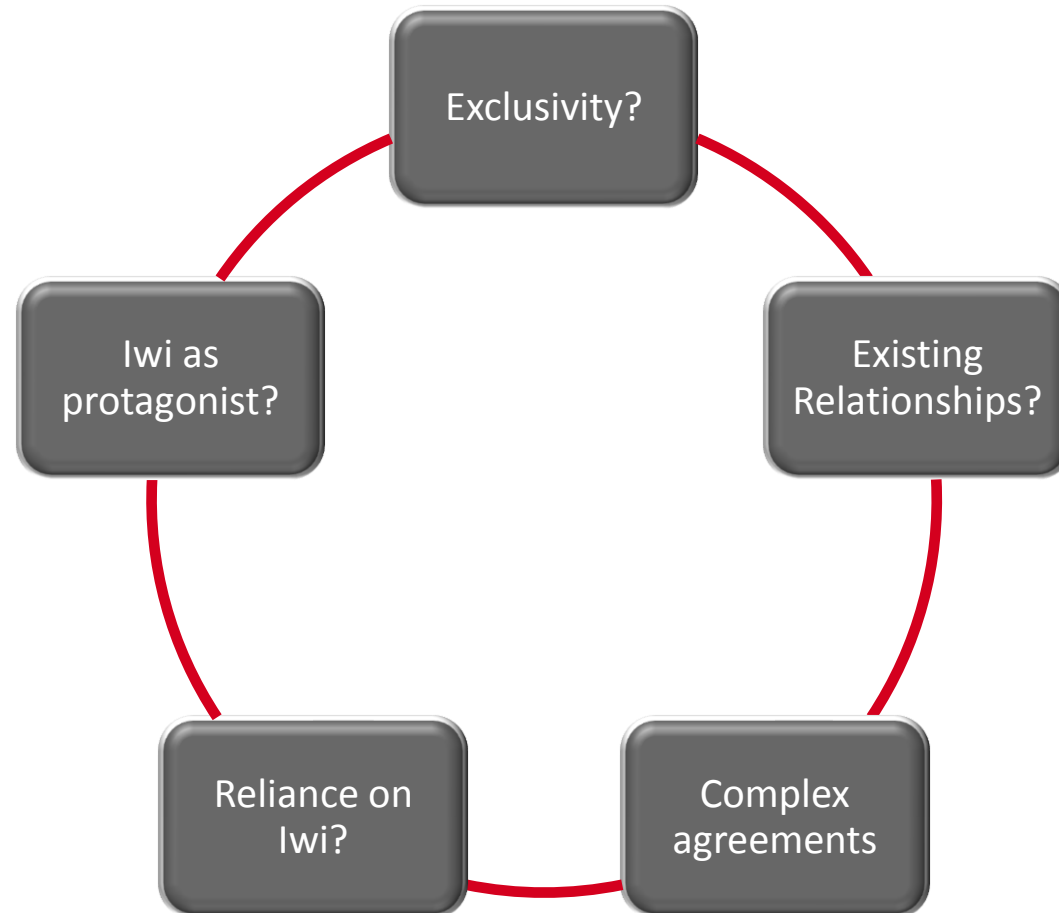


Procurement



- Bid costs can be high for no guarantee of success

Procurement - Dealing with consortia





Proposal considerations



Toll Road

- Architectural design
- Engineering specifications
- Construction plan
- Traffic modelling and usage
- Maintenance
- Full costing
- Financial modelling
- Consenting

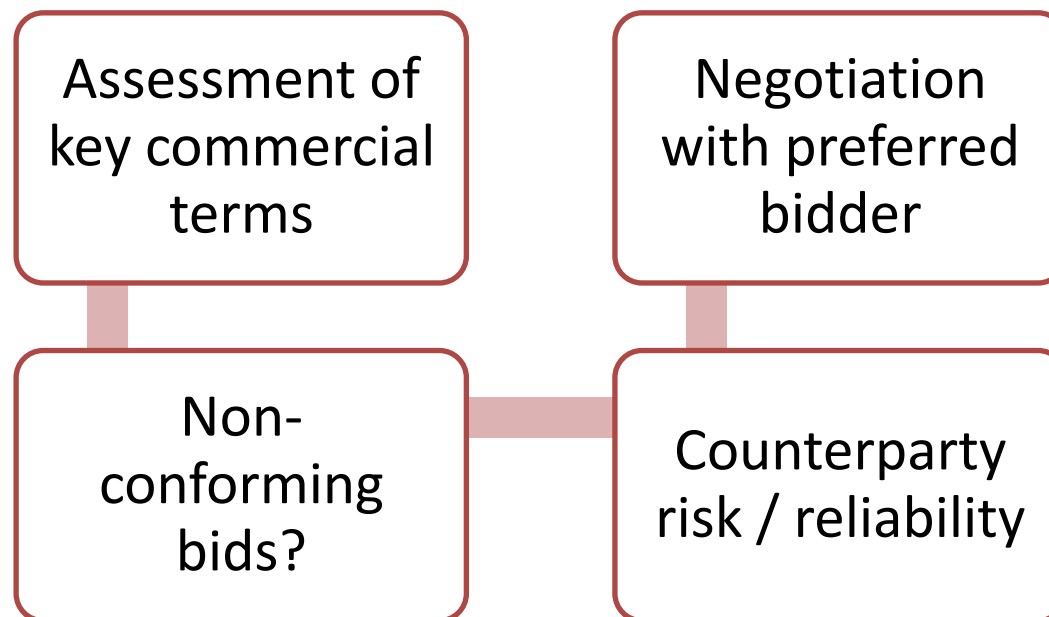
School

- Community needs
- Architectural design
- Engineering / construction plan
- Impact on surroundings
- Lease terms
- Maintenance
- Full costing
- Financial modelling
- Consenting

Geothermal Plant

- Engineering feasibility
- Supporting network infrastructure
- Detailed specifications and construction
- Output modelling
- Dealing with offtake
- Maintenance
- Financial modelling
- Resource consent
- Full costing

Bid assessment and negotiation



Crown interest in keeping multiple consortia interested until financial close

Construction and operation



Deal is done – now about actually building and operating the infrastructure

- Milestones and performance monitoring
- Dispute resolution
- Enforcement / default – The Crown will have the upper hand
- Realisation of benefits



Kōrerotia

- When do we need to act?
- Who are the prospective players in an Inter-Iwi consortia?
- Who are the private sector parties we need to form relationships with?
- Practical examples;
 - Toll road;
 - School;
 - Geothermal



IWI

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KEI HEA TE PUTEA

Chris Taylor and Chris Money

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Ngā patai

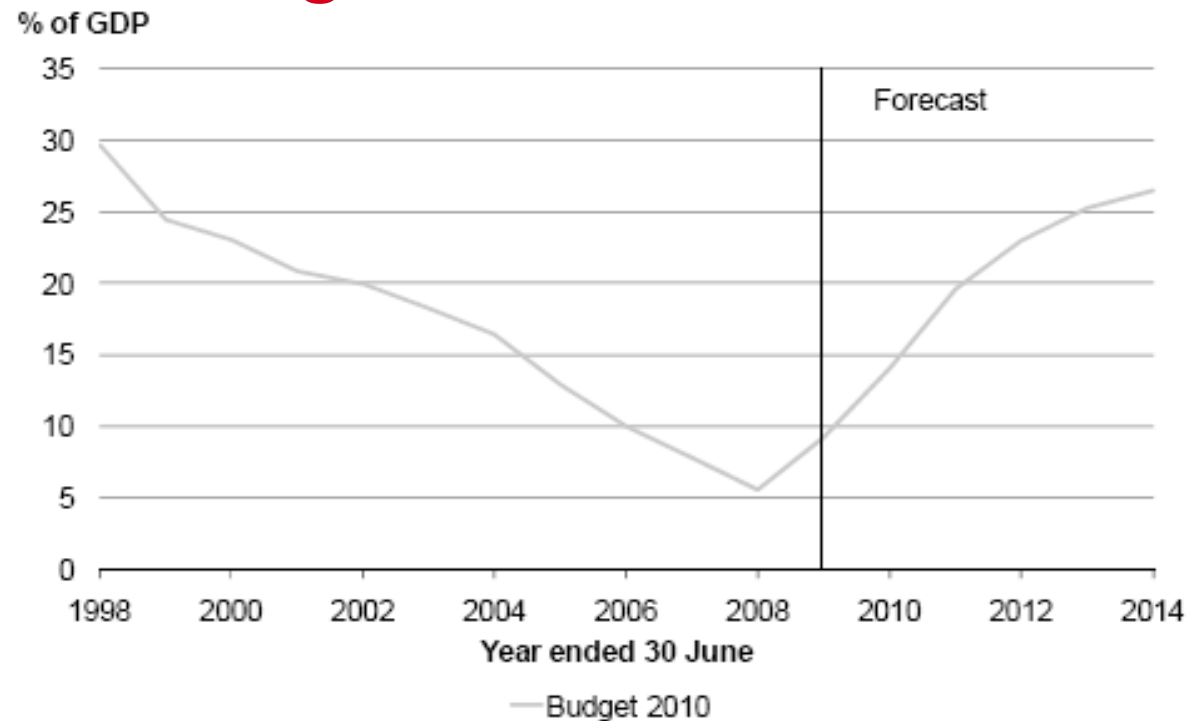
- **What is the financial picture for the Crown?**
- **Where is the money?**
- **How can we be clever in bringing together the capital we need?**

Government infrastructure funding

Source of Capital	Use	Exception
Taxes	<ul style="list-style-type: none"> Operating spending (teacher salaries, office rents, benefits, hospital operations etc)– tax take spent in the year collected. 	<ul style="list-style-type: none"> Roads usually paid for by fuel tax and road user charges in the years that they are built
Debt	<ul style="list-style-type: none"> Capital spending (frigates, university buildings, hospital construction, police cars etc). Debt is repaid over time through taxes. 	<ul style="list-style-type: none"> In mid 2000's, tax take was so large that a lot of capital was funded from taxes



How do government finances look?



PPPs are now attractive to the government, but they are not the only procurement option



Private sector infrastructure funding

Source of Capital	Features	Sources
Debt	<ul style="list-style-type: none">• Fixed or variable rate of return• Priority ranking over equity• Security?• Borrowed at 'project' or 'corporate' level• Availability and cost depend on risk	<ul style="list-style-type: none">• Bank loans• Wholesale markets (private placement/bonds)• Retail markets
Equity	<ul style="list-style-type: none">• Residual claim to cash flows• Residual claim on any winding up• Equity returns (and volatility of those returns) impacted by degree of leverage• Can be introduced at a 'project' or 'corporate' level	<ul style="list-style-type: none">• Existing equity holders• New Equity

What mix of debt and equity?

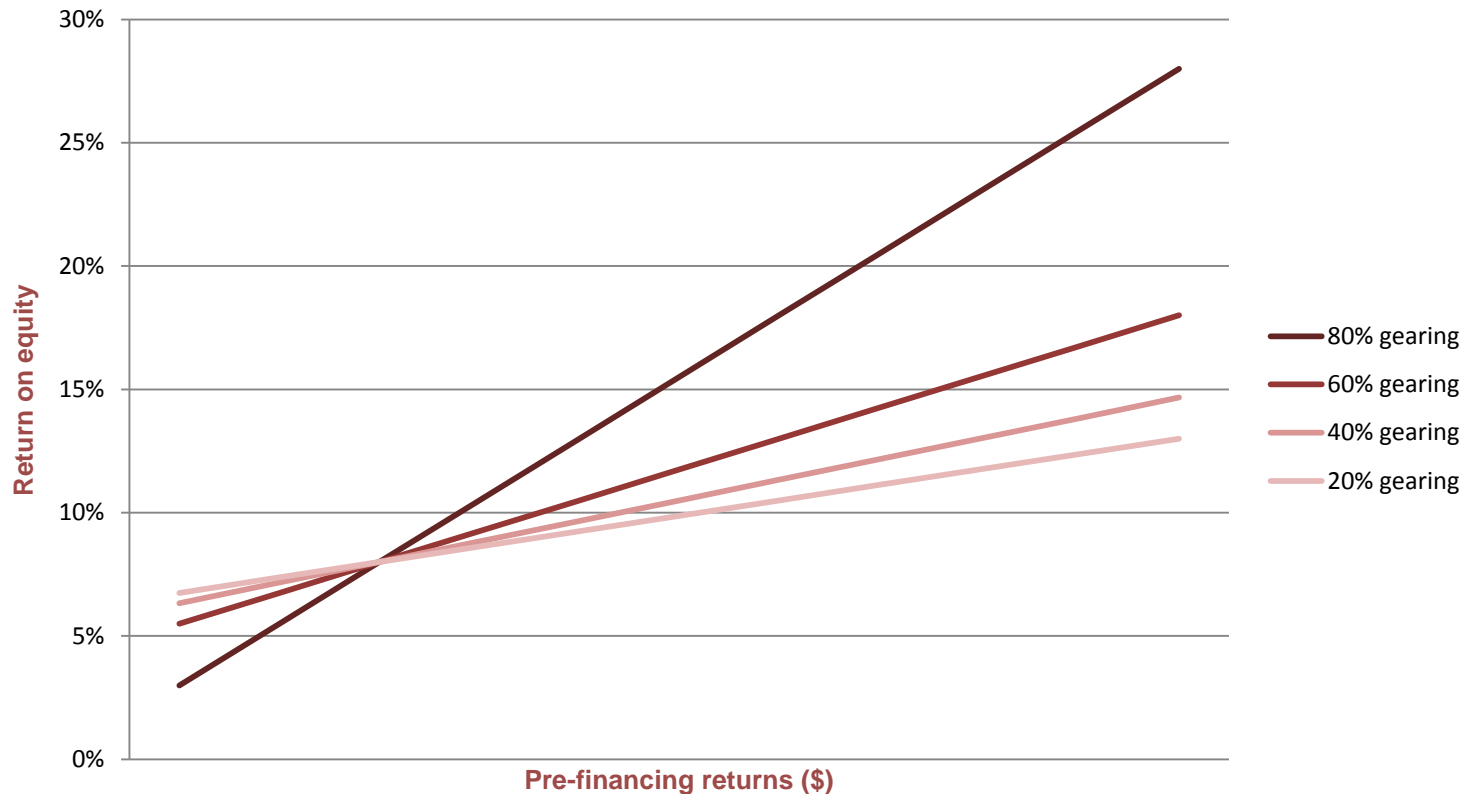


Key considerations?

- Stability of projects returns/cash flows
- Optimising cost of capital
- Cost of debt
- Level of security offered (actual or implicit)

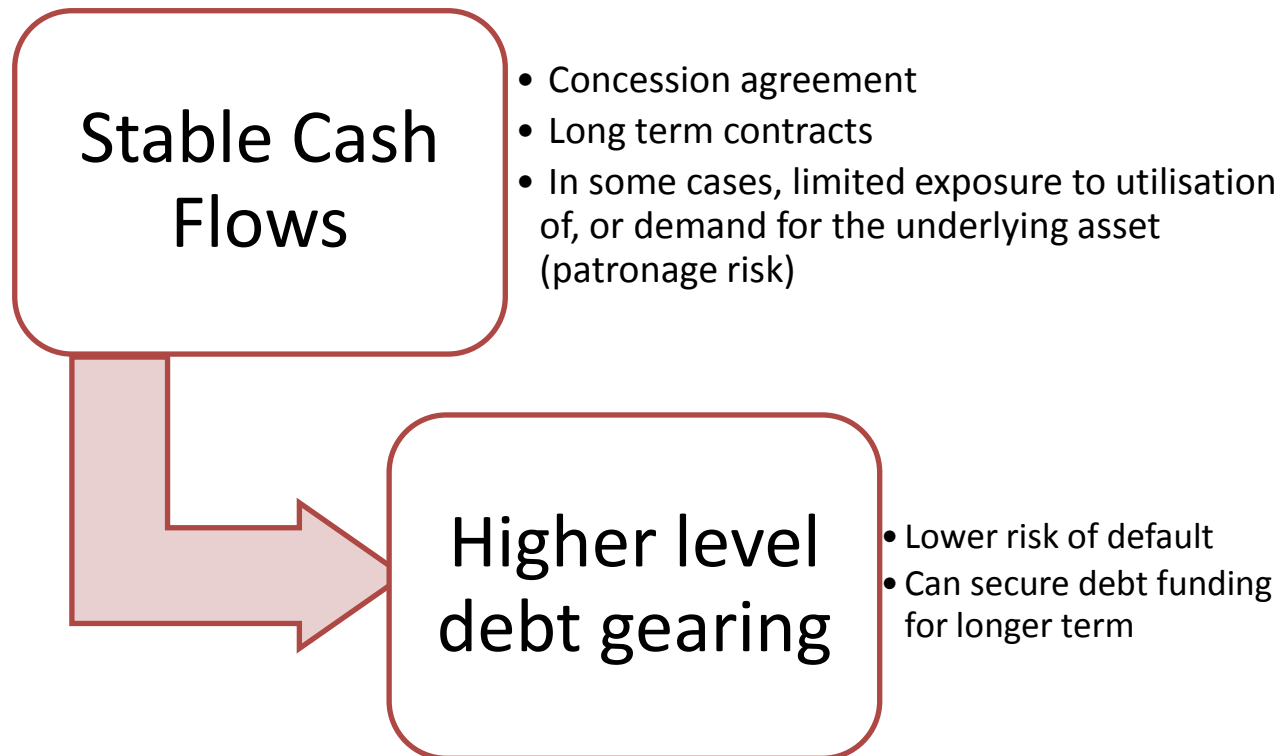
What mix of debt and equity?

Impact of gearing on equity returns





Characteristics of infrastructure- impacts for funding

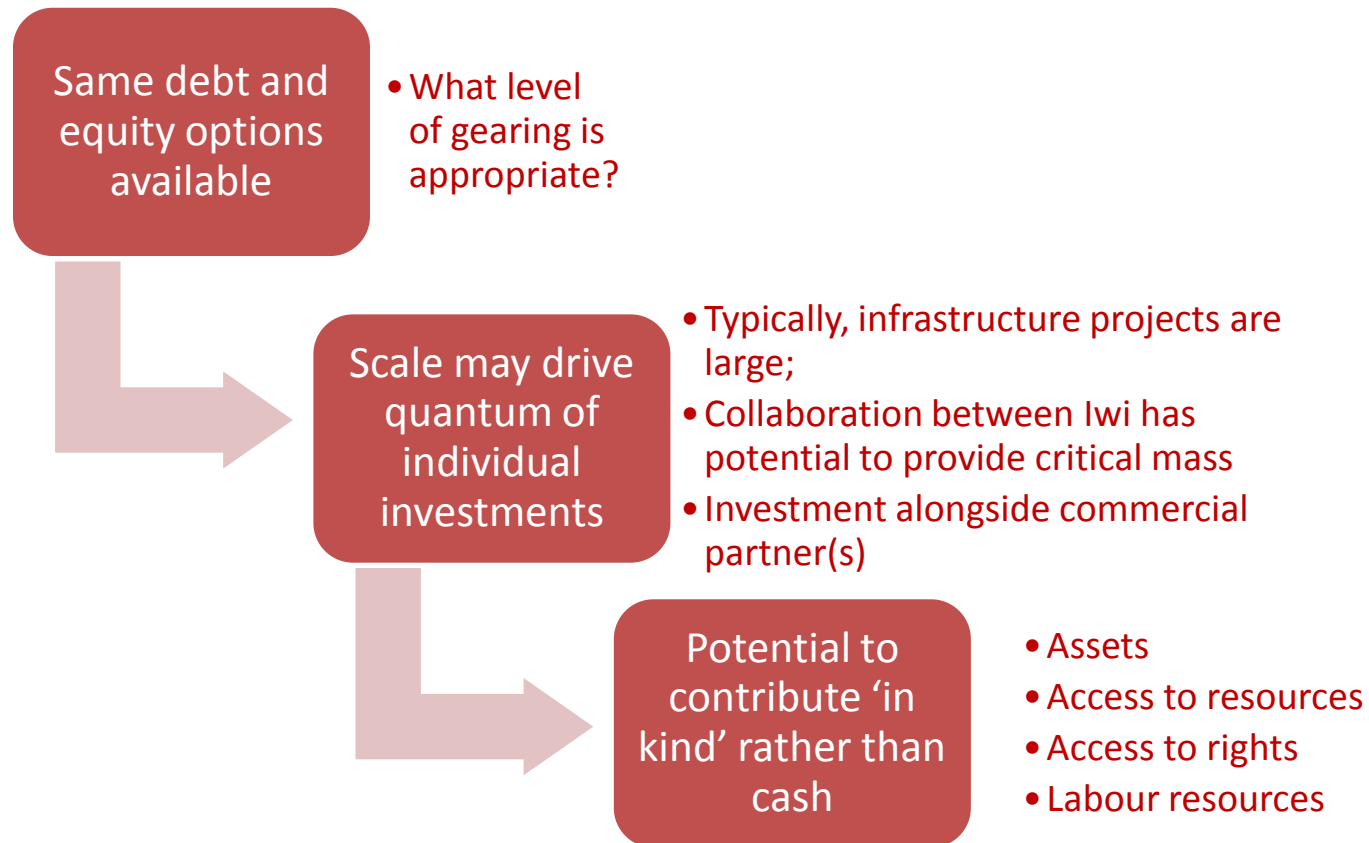




Funding mix depends on risk/reward considerations

- Debt and equity providers have different return expectations
- Depends on who is bearing the risk
- **PPPs are another option:**
 - **Sharing risk and reward**
 - **Collaboration is required**
 - **Those taking the financial risk will always retain significant rights**

Iwi funding of infrastructure projects





Kōrerotia

- Debt;
 - Does the higher level of debt gearing for infrastructure create a change for the conservative Iwi approach to debt?
 - Is there a role for wholesale or retail markets in the Iwi economy?
 - Equity;
 - Equity and current Iwi portfolios;
 - New Iwi equity?
 - In kind;
 - What are the 'in kind' inventory items for all Iwi?
- WHAT IS THE ROLE AND
POTENTIAL OF INTER-IWI
COLLABORATION?**





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He tino taurira

Case studies

Eric Lucas / Mark Paterson

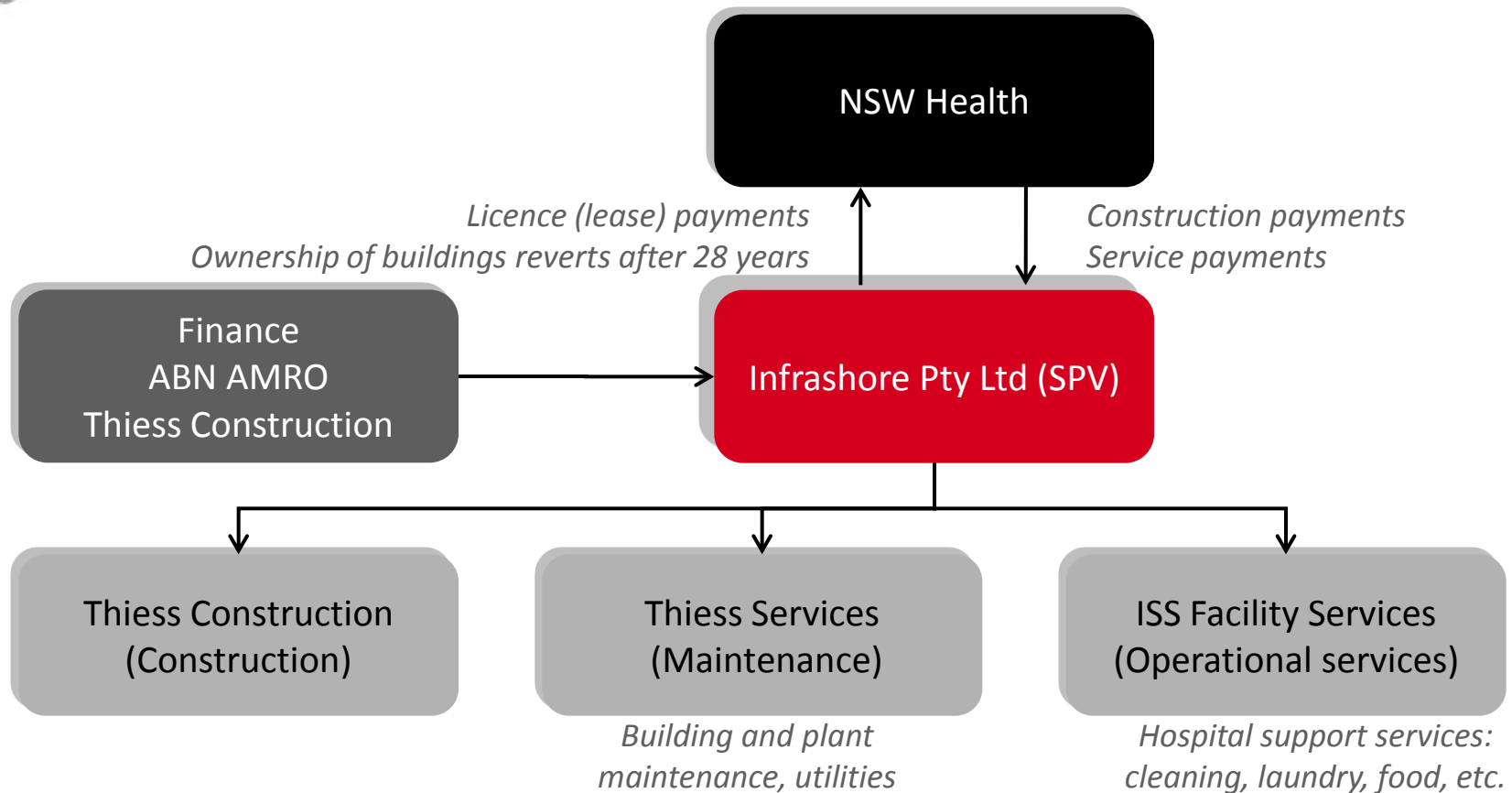
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Royal North Shore Hospital (Sydney)

- A\$1.07b redevelopment of the Royal North Shore hospital in Sydney including:
 - New research and education facility
 - New acute services facility
 - Community Health Centre
 - Refurbishment to existing buildings (including consolidation of 53 outdated buildings)
- Main hospital for Sydney's North Shore and needed to remain operational while redevelopments in progress
- Completion 2012
- Infrashore Partnership:
 - Financiers: ABN AMRO
 - Construction: Thiess Pty
 - Services: Thiess Services, ISS Facility Services, Wilson Parking
- Largest hospital PPP in NSW



Royal North Shore Hospital (Sydney)

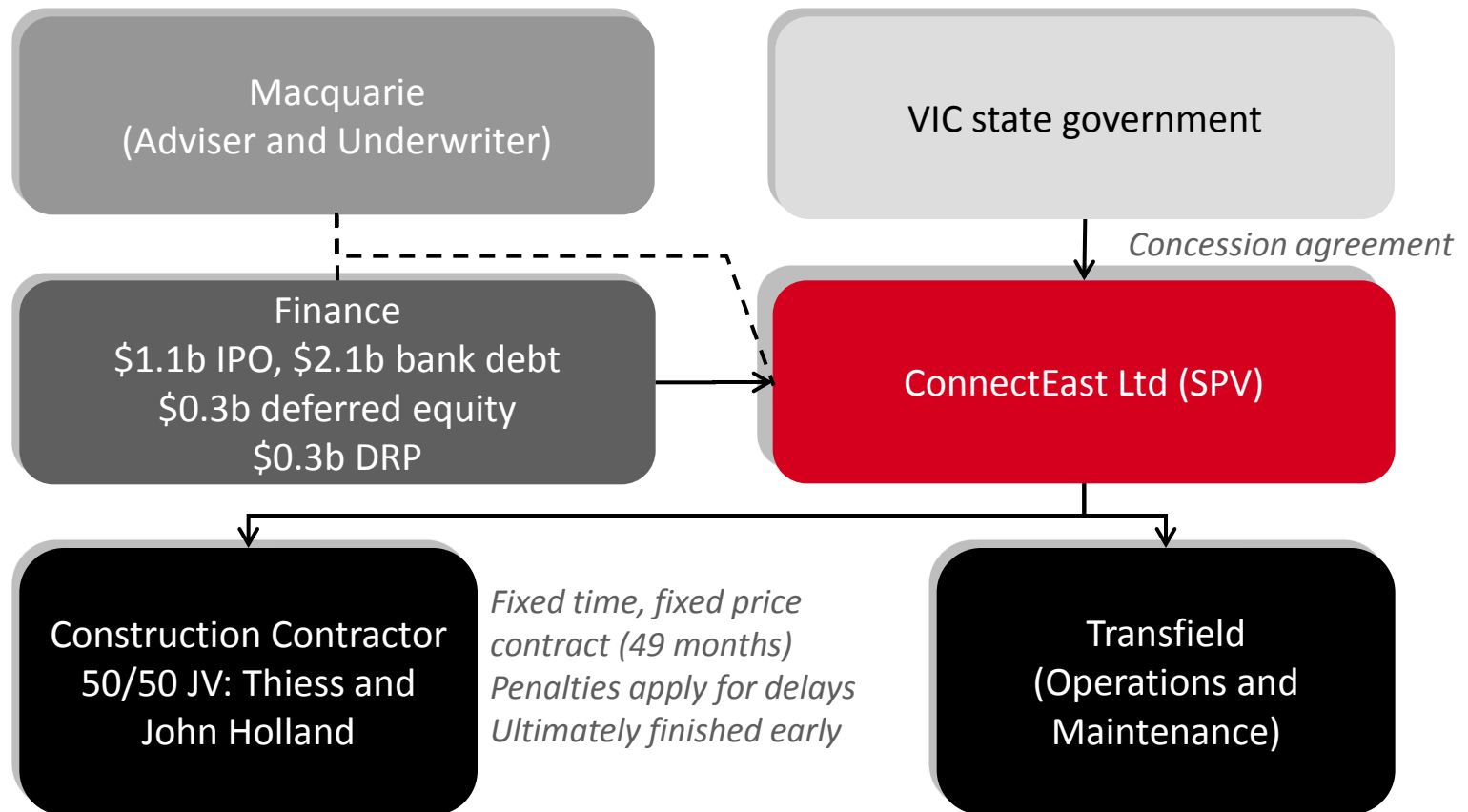


Eastlink (Victoria)

- Largest ever urban road project in Victoria (A\$2.5b), including:
 - 39km of tolled motorway and 6km of bypass roads
 - twin, three-lane, 1.6km tunnels under the Mullum Mullum Valley
 - 103 structures, including 88 bridges
- Completed 5 months ahead of schedule (opened June 2008)
- 39 year concession (ownership reverts to VIC state government thereafter)
- ConnectEast:
 - IPO raised \$1.1b
 - Financial adviser: Macquarie
 - Construction: Thiess / John Holland (also debt/equity sponsors)
 - Operations/maintenance: Transfield



Eastlink





Eastlink – key structural features

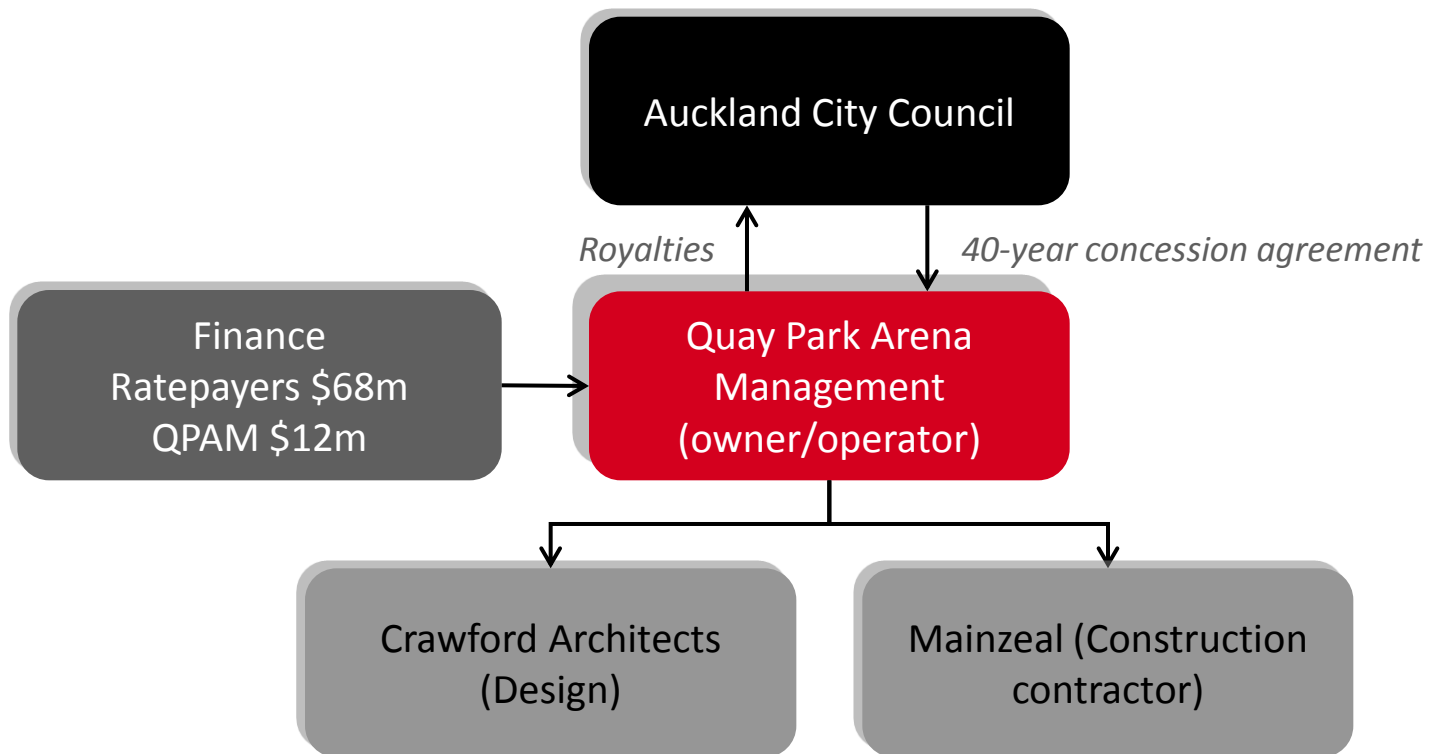
- Construction agreement was ‘fixed time, fixed price’
 - 49 month term, penalties apply for delay
 - Ultimately finished 5 months early
- ConnectEast collects tolls:
 - Traffic modelling required, tolls initially set at relatively low levels
 - Tolls fixed but adjusted for CPI, and to deliver pre-specified 12.5% IRR to equity investors
 - Proportion of surplus revenue beyond that in Base Case Model goes to State as rent (up to 70%)

Vector Arena

- One of the most successful arenas in the Southern Hemisphere (notwithstanding construction issues)
- Third highest grossing venue in the world for its size
- Ownership/management reverts to Auckland City after 40 years (Boot contract)
- Achieved ACC's objective of having a facility constructed and operational whilst avoiding any operation risk
 - Venue not commercially viable without Auckland City funding of build cost
- Management: Quay Park Arena Management – experienced venue operators
- Design: Crawford Architects
- Construction: Mainzeal
- Funding: Ratepayers



Vector Arena

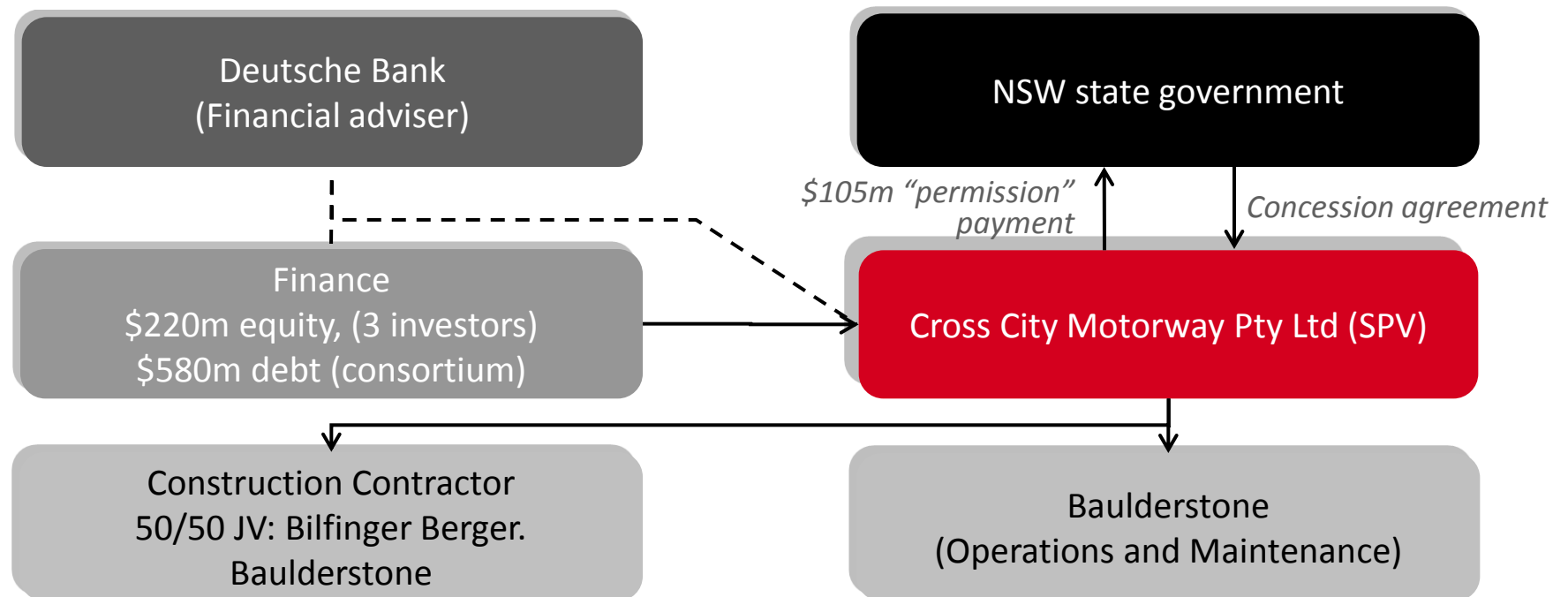




Sydney Cross City Tunnel

- A\$800m tunnel under Sydney's CBD (2.1km)
- Cross-City Tunnel Partnership granted 28-year build, own, operate and transfer contract in 2002
- Returns to operator dependent on tolls (no “availability” payment)
- Traffic volumes lower than anticipated (30,000 trips/day cf. Cross-City Partnership's estimate of 60,000 – 90,000)
- Cross-City Tunnel Partnership slashed tolls to stimulate volume but insufficient to avoid financiers placing them in receivership in late 2006
- Subsequently purchased by Leighton Contractors and ABN AMRO for A\$700m in 2007

Cross-City Tunnel Partnership





Sydney Cross City Tunnel

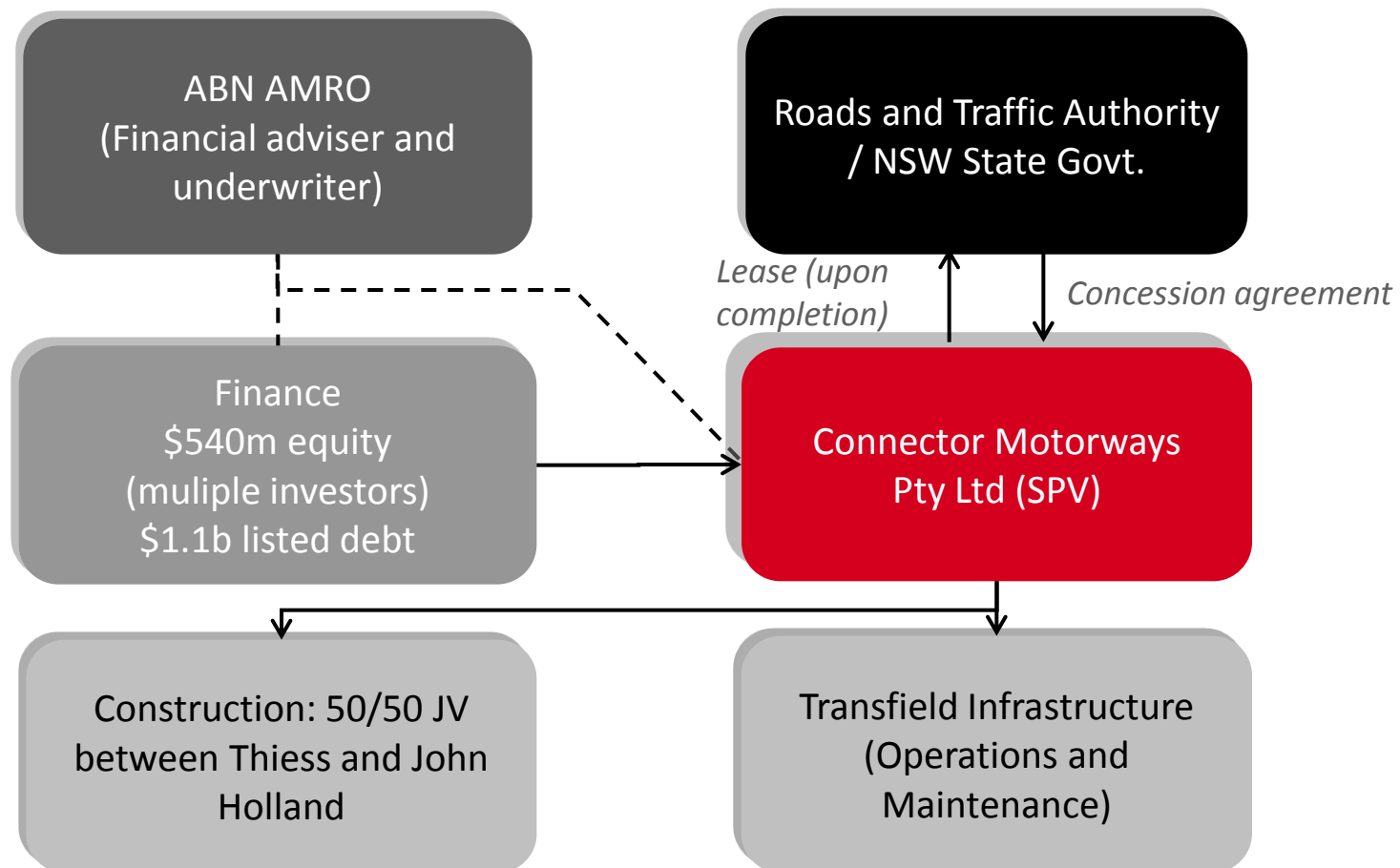
- Demand risk transferred by government but underestimated by winning bidder
- Possible overenthusiasm – other bidders had lower traffic estimates
- Public not impressed over:
 - Payment made to State Government which was reflected in toll rates
 - Lack of initial toll-free period
 - Toll rates charged

Lane Cove Tunnel (Sydney)

- A\$1.5b tunnel connecting the M2 and the Gore Hill Freeway in Sydney
- Connector Motorways consortium awarded 30-year build, own, operate and transfer contract – bore demand risk
- Some difficulties in construction including surface subsidence and government interference (coincident with State/Federal elections)
- Volumes only c. 50% of the forecast of 100,000 trips/day
- Connector Motorways placed in receivership in January 2010; asset acquired by Transurban in May 2010 for A\$630m



Connector Motorways





Lane Cove Tunnel

- Key criteria for bid evaluation:
 - Value for money against public sector comparator
 - ‘Non-price’ assessment: participants, structure, design, traffic management, operation and maintenance plans
- Underlying land owned by RTA but leased to SPV upon completion of construction
- RTA was able to make changes during construction process but had to compensate consortium
- First time debt capital market funding was used extensively to fund a PPP
- Ultimately it was the bondholders that appointed the receiver



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Ko te kaupapa tōnū

Iwi commercial collaboration in a kaupapa Māori way

Hamiora Bowkett / Geof Nightingale

August 2010



Ngā patai

- **Working out the place of Iwi in a PPP;**
 - What are Iwi objectives for the project?
 - What roles could Iwi undertake?
 - Why? What do we offer?
 - What are project risks?
 - Who should bear them?
 - How would we want to structure your investment/involvement?
 - What governance issues will arise?
 - Other issues

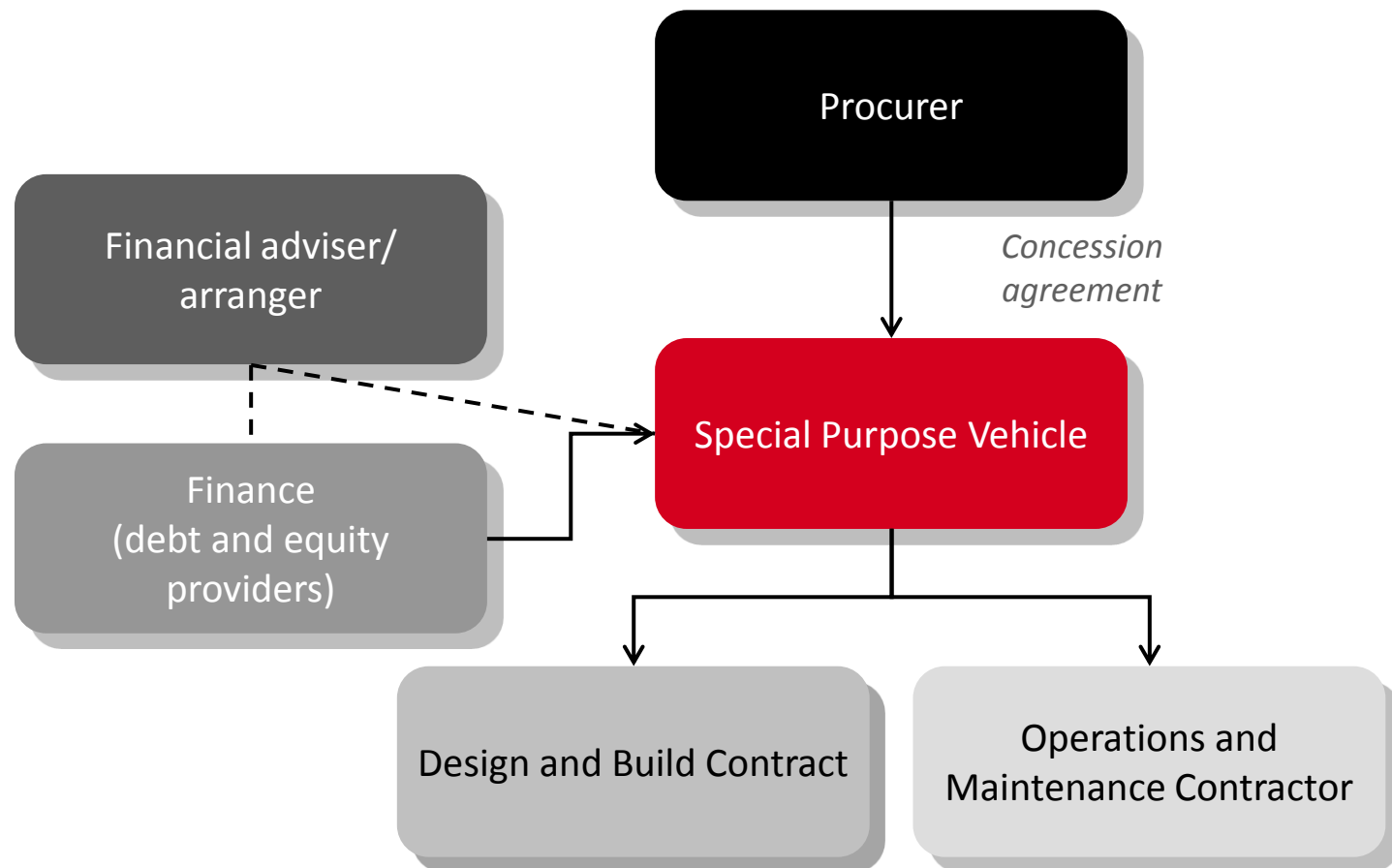
Kōrerotia

- How could and should **tikanga** be reflected in commercial arrangements?
 - What are the mechanisms to respect mana whenua?
- How could and should **mana to mana relationships** be reflected in commercial relationships?
 - What governance arrangements respect both the mana to mana relationship and uneven economic interests?
- Do PPPs/infrastructure investment have any unique characteristics for **giving effect to tikanga**?

Discussion Examples

	Kopu Bridge	Bundle of Schools	Geothermal	Health facility
Context	<ul style="list-style-type: none"> Existing one lane bridge is insufficient to accommodate peak traffic flow 	<ul style="list-style-type: none"> New schools needed to support substantial population growth 	<ul style="list-style-type: none"> Iwi own land which contains geothermal resources which may be viable to support a power plant 	<ul style="list-style-type: none"> Health care facility
The Deal	<ul style="list-style-type: none"> Crown inviting interested parties to submit proposal, and must be satisfied that feasible untolled route exists and that toll road will advance economic development 	<ul style="list-style-type: none"> Consortium will construct school and Ministry of Education will then lease the buildings 	<ul style="list-style-type: none"> Iwi have access to geothermal resources – do we want to simply lease access or participate in a greater role? 	<ul style="list-style-type: none"> Consortium will construct and operate health care facility
Cost	<ul style="list-style-type: none"> \$60m 	<ul style="list-style-type: none"> \$20m 	<ul style="list-style-type: none"> Dependent on size 	<ul style="list-style-type: none"> \$10m-\$15m
Likely return	<ul style="list-style-type: none"> Fixed return or tolls 	<ul style="list-style-type: none"> Lease rentals 	<ul style="list-style-type: none"> Dependent on Iwi role 	<ul style="list-style-type: none"> Dependent on Iwi role

Typical PPP structure



What roles could and would Iwi hold in a PPP?



FINANCE		
<ul style="list-style-type: none">• may require coinvestment	<ul style="list-style-type: none">• Equity Investment:<ul style="list-style-type: none">• Bears project risk including demand risk and competition risk— which usually requires unique skills to manage;• Potential for substantial economic returns but quantum and timing of loss is uncertain;• Risk losing some or all of initial investment if project performs poorly	<ul style="list-style-type: none">• Debt Investment;<ul style="list-style-type: none">• Returns generally fixed;• Return intended to reflect relative risk;• May contain options e.g. Put option• Priority claim on cash flows;• Typically a passive investment only (cf equity)



What roles could and would Iwi hold in a PPP?

DESIGN AND BUILD

- Typically high risk and capital intensive
- Substantial expertise required (designers, architects, engineers)
- Design and construction innovation often an important part of bid evaluation

OPERATIONS & MAINTENANCE ROLES

- Operates / maintains asset once built
- Typically earns a fixed return but may have a variable (KPI-linked) component
- Risks include:
 - Bid-risk
 - Non-renewal risk
 - Maintenance risk
- Required expertise may vary widely depending on sector

What roles could and would Iwi hold in a PPP?

SPECIAL PURPOSE VEHICLE

- Management of special purpose vehicle
 - Requires experience in project management and service delivery
 - Relationships with contractors vital
 - Ability to manage and contract out risks as appropriate
 - SPV bears all residual risk not carried by other consortium members including competitive risk, demand risk, project risk and expected life risk

ADVISORY ROLES

- Wide range of advisory roles potentially available
 - Financial advisor/arranger – manages relationships with debt/equity sponsors, typically receives success fees and potentially a share of refinancing gains
 - Consenting
 - Community consultation
 - Specialist knowledge or expertise
 - Access to sites or resources



What roles could and would Iwi occupy in PPPs?

INTERNAL QUESTIONS

- What existing financial assets do we have?
- What other assets do we have? E.g. access rights, natural resources
- What skills do we have in our existing activities?
- What sectors do we have knowledge of/experience in?
- What existing relationships do we have?
- What is our tolerance for risk?

DEAL SPECIFIC QUESTIONS

- What should we do to secure our role?
 - Lead time?
 - Political influence?
- How can we raise finance?
- What security is on offer?
- Governance structures around collaboration arrangements?
- Other issues around collaboration



Ngā patai

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Ko te kaupapa tōnū

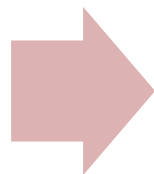
Iwi consortia and financing
Hamiora Bowkett / Geof Nightingale

August 2010

Ngā patai



PPPs & co-investment are about
Iwi managing the things they
are best placed to control



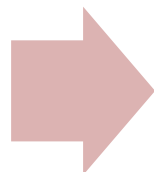
How do you identify and
position yourself to do so?

Iwi more likely to achieve
economic and social gains from
these types of transactions by
investing and collaborating
together



What do we need to do to make
this happen?

Co-investment models including
PPPs require a mix of
capabilities and skills



Who else do Iwi need to engage
with to make these deals
happen?



He aha tā tātou whakaaro?

TE RŌPŪ TUATAHI: Achieving control.....

- What are we best at doing?
- What do we bring to the table?
- What makes us special? Unique? Powerful?
- What is this worth?

What is the unique strategic leverage of Iwi and what can we do with it?



He aha tā tātou whakaaro?

TE RŌPŪ TUARUA Working together.....

- People and relationships make these deals happen
- We are all “related parties” – how do we exploit that?
- What stops us from doing this?
- Can we overcome this?

Who are the prospective players in an inter-iwi consortia?



He aha tā tātou whakaaro?

TE RŌPŪ TUATORU Who else do we need?

- We need different sets of know-how and input
- Who do we need then?
- Why would they be interested?
- What sort of arrangements would work for us?
- What role for the Crown?

Who are the private sector parties we need to form relationships with?



Whakawhiti ngā whakaaro